STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: IES UTILITIES INC., AND INTERSTATE POWER COMPANY, n/k/a INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. TF-03-535 TF-03-536

ORDER APPROVING TARIFFS AND REQUIRING REPORT

(Issued March 5, 2004)

On December 2, 2003, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed tariffs, identified as TF-03-535 and TF-03-536. The proposed tariffs would place a temporary moratorium on offering IPL's Day Ahead Hourly Pricing (DAHP) tariffs to new customers. The DAHP tariffs were originally proposed and approved as a pilot project in Docket Nos. RPU-02-3 and RPU-02-8. Compliance tariffs for the pilot were effective on July 17, 2003. More than a dozen customers have elected to take service under the DAHP tariffs. IPL states the tariffs were designed to send price signals to encourage participants to move usage from the high-cost hours, but that preliminary analysis of two of the accounts indicates that there will be a significant revenue reduction for IPL without any corresponding behavioral change from the two participants. IPL wants to suspend offering the service to new customers pending further analysis of customers' behavior under the DAHP tariffs. IPL said the results of the analysis would be provided to the Board as part of the annual pilot project status report.

The Large Energy Group (LEG), comprised of PMX Industries, Inc., General Mills, Inc., Quaker Oats, and Penford Products Company, filed an objection to the proposed moratorium on December 22, 2003. In order to consider the objection and allow IPL an opportunity to respond, the Board suspended the proposed tariffs and docketed the filing on December 31, 2003. On January 13, 2004, the LEG made a supplemental filing adding Rockwell Collins and Weyerhauser Company to the LEG's membership for this proceeding.

The LEG points out that the proposed moratorium is requested based on an analysis of only two customers with data collected for just five months after the rate option was approved at the conclusion of a general rate case in which all of IPL's revenues, costs, and investments were considered. While claiming an erosion of revenue of $400,000, IPL's filing fails to demonstrate the non-existence of a corresponding reduction in IPL's costs. The LEG asserts that IPL is violating the prohibition against piecemeal or single-issue ratemaking. The LEG also argues that because IPL has announced it will file a general electric case in 2004 based on a 2003 test year, any changes to the DAHP tariffs should be deferred until that filing.

IPL filed a reply on January 12, 2004. IPL notes that more than a dozen customers signed up for the pilot project as of December 2, 2003, the day the proposed moratorium request was filed, and eight additional customers have joined the pilot since that date. IPL points out that in its testimony in Docket Nos. RPU-02-3 and RPU-02-8 regarding the pilot project, the witness had noted the potential for "unanticipated consequences." (Tr. 2285.) IPL argues that the revenue reduction that has been observed, $400,000, if there is no corresponding reduction in costs, presents cross-subsidization issues. The moratorium will allow IPL to analyze the tariffs while limiting the potential impact on non-participating customers. IPL emphasizes it is not the revenue reduction that is surprising; it is the revenue reduction without change in the customers' behavior. Because there has been no change in behavior, IPL argues, there has been no reduction in costs.

IPL claims the prohibition against single-issue ratemaking is not applicable here. IPL argues that not only is a pilot project involved, but also IPL is not changing a rate, merely freezing the availability of an optional rate to new customers. In addition, IPL questions the standing of the LEG to object to the moratorium. Of the original four members of the LEG, IPL states that two are already on the rate and will not be impacted by the moratorium and two are interruptible customers who are ineligible for the pilot project. In a supplemental filing on January 22, 2004, IPL said the main plants of the two new members are interruptible and could not qualify for the DAHP. Other accounts of Rockwell Collins have signed up for the DAHP and would not be impacted by the moratorium.

The Board does not believe that there are factual issues in dispute relevant to determining whether to approve a moratorium on the DAHP. The critical point for the

Board's analysis is that the DAHP is a pilot project. Pilot projects by their very nature are experimental and it should be expected that some changes might have to be made if the pilot project does not perform as expected. The loss of revenue without offsetting behavioral changes presents potential issues that should be further analyzed before any more customers are allowed to participate in the pilot project. The prohibition against piecemeal ratemaking and the matching principle have no applicability because this is a pilot program and the generally available tariffed rates are not impacted. If errors in an optional pilot program cannot be analyzed and corrected midstream, outside of a general rate case, there would be less experimentation with optional rates to the long-term detriment of all customers. Customers who have signed up for the pilot program prior to the issuance of this order are not affected by the moratorium.

Although it is not necessary for the Board to rule on the standing issue, the Board notes that it does not appear that any of the LEG members will be detrimentally affected by the moratorium. From the information filed, the LEG members have either signed up for the pilot project or are not eligible. If this is the case, the LEG members will not be adversely affected by the moratorium.

The pilot project tariffs were effective on July 17, 2003. For a complete analysis, the Board believes that at least 12 full months of data, through August 2004, is required. IPL will be directed to file an analysis of the pilot program and any proposed changes on or before October 1, 2004, as part of the annual status report.

Because many of the participants did not sign up until some time after July 17, 2003, it may be that a subsequent supplemental report will be required.

IT IS THEREFORE ORDERED:

1. Tariff filings TF-03-535 and TF-03-536 are approved, effective as of the date of this order, subject to complaint or investigation.

2. IPL shall file a report containing the information identified in the body of this order, including any proposed changes in the DAHP pilot, on or before October 1, 2004.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 5th day of March, 2004.